

OFFICES OF THE  
**STATE AUDITOR OF MISSOURI**  
JEFFERSON CITY

CITY OF CROCKER, MISSOURI  
YEAR ENDED JUNE 30, 1998

**MARGARET KELLY, CPA**



Report No. 99-02  
January 5, 1999

CITY OF CROCKER, MISSOURI

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**STATE AUDITOR OF MISSOURI**  
**JEFFERSON CITY, MISSOURI 65102**

**MARGARET KELLY, CPA**  
STATE AUDITOR

P.O. Box 869  
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To the Honorable Mayor  
and  
Board of Aldermen  
City of Crocker  
Crocker, Missouri 65452

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Crocker, Missouri. Our audit of the city included, but was not limited to, the year ended June 30, 1998. The objectives of this audit were to:

1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Crocker, Missouri.

A handwritten signature in black ink that reads "Margaret Kelly". The signature is written in a cursive style with a large, stylized "M" and "K".

Margaret Kelly, CPA  
State Auditor

July 28, 1998

## HISTORY AND ORGANIZATION

# CITY OF CROCKER, MISSOURI HISTORY AND ORGANIZATION

The city of Crocker is located in Pulaski County. The city was incorporated in 1912 and is a fourth-class city. The population of the city in 1990 was 1,077.

The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms. The mayor is elected for two years, presides over the board of aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at June 30, 1998, were:

<u>Elected Officials</u>	<u>Term Expires</u>	Actual Compensation for the Year Ended <u>June 30, 1998</u>	<u>Amount Of Bond</u>
Norma Lea Mihalevich, Mayor	April 1999	\$ 0	\$ 0
Leon Layman, Alderman	April 2000	0	0
James Morgan, Alderman	April 2000	0	0
Ronnie Layman, Alderman	April 1999	0	0
Jim Goodrich, Alderman	April 1999	0	0
<u>Other Principal Officials</u>			
Joyce Peterson, Administrative City Clerk		23,592	25,000
Robert Layman, Jr., Public Works Superintendent		23,359	0
Robert Ishmael, Chief of Police		17,091	0
Ella Hardesty, City Treasurer		2,032	0
Ferrell G. Shelton, Municipal Judge		2,400	0
William C. Morgan, City Attorney		1,200	0

In addition, the city has eight full-time employees.

Assessed valuation and tax rate information for the tax year 1998 are as follows:

## ASSESSED VALUATION

Real estate	\$ 3,344,670
Personal property	<u>1,408,988</u>
Total	\$ <u>4,753,658</u>

## TAX RATES PER \$100 ASSESSED VALUATION

General Fund	\$.56
Park Fund	<u>.16</u>
Total	\$ <u>.72</u>

The city has a general sales tax of one percent of retail sales within the city.

## MANAGEMENT ADVISORY REPORT SECTION

CITY OF CROCKER, MISSOURI  
SUMMARY OF FINDINGS

1. Financial Operations (pages 8-11)

The city has continued to budget and operate the General Fund with a deficit cash balance, using other city funds to subsidize the General Fund operations. Some expenses are not allocated to the appropriate city fund and the financial condition and operations of each city fund are not reviewed on a periodic basis.

2. Budgetary Practices and Financial Reporting (pages 11-14)

The city's budgets do not include the necessary information for all funds as required by state law, and the board does not periodically compare actual revenues and expenditures to the budgeted amounts. The city has continually budgeted a deficit fund balance in the General Fund and has approved expenditures in excess of the budgeted amounts for several funds. The approved budget amounts are not reconciled to the budget amounts recorded on the computerized accounting system. The city's semi-annual published financial statements only report information in total (all city funds combined), rather than detailed information by fund. A formal maintenance plan for city streets has not been prepared annually and included in the budget.

3. Expenditures and Contracts (pages 15-18)

While the city has a formal bidding policy, it has not followed the written policy on many purchases. Over \$174,000 was spent by the city on various purchases where bids were not solicited or not documented. The city provides use of land in the city park and free water and sewer services to a not-for-profit swimming pool committee that operates the pool without a written ordinance or a cooperative agreement. The city has not entered into formal written contracts for the purchases of some property, the city is paying for the purchase of land next to the city park from the Water and Sewer Fund instead of the General Fund, and the city erroneously overpaid the final payment on a land purchase by \$1,400. The city has entered into a four-year installment loan for the purchase of a new police car. The city overpaid \$2,000 to the grant administrator for costs related to a Community Development Block Grant.

4. Accounting Controls and Procedures (pages 18-21)

Prenumbered receipt slips are not issued for some monies received, the method of payment is not recorded in the cash receipts ledger and reconciled to the composition of deposits, and cash receipts are not deposited intact or on a timely basis. Checks and money orders are not restrictively endorsed immediately upon receipt, invoices are not approved for payment by the board before checks are completed and signed by the City Treasurer, and some city employees are not adequately bonded.

5. Water and Sewer System Controls and Procedures (pages 21-23)



There is no independent oversight or adequate segregation of duties related to the city's utility system. The city has not established formal procedures to adjust individual utility bills and there is no independent review or approval of the credit adjustments recorded on the computerized utility system. The city does not have a written policy or ordinance indicating the number of water and sewer hook-ups allowed for each business or residence. The city has not performed an operation and maintenance review of the water system since November 1995. The city did not maintain documentation of the costs of providing water to the local water district which it considered when establishing the related water rate.

6. Community Oriented Policing Services (COPS) Grant (page 23)

The city did not seek reimbursement for allowable costs on a timely basis.

7. Personnel Policies and Procedures (pages 24-26)

The city has not adopted an annual ordinance to establish the compensation of appointed officials and employees. The City Clerk received a new position and an increase in compensation which was not provided for by a city ordinance. The city does not have a written policy on use of city vehicles for commuting purposes. Some employee time sheets which are completed by the City Clerk are not signed by the employee or their supervisor, and time sheets do not indicate hours worked by function as a basis for allocating salaries and fringe benefits to the appropriate funds. The city is not consistently following some of its written personnel policies.

8. Board Policies and Procedures (pages 26-28)

One set of closed session minutes could not be located, and some minutes did not specifically document what was discussed but just made a general statement that a certain topic was discussed. The tentative agenda does not disclose specific information to be discussed at the upcoming board meeting and does not indicate the reason for holding a closed session. The board minutes did not disclose the reasons for buying approximately 78 acres of land or the various alternatives to buying this land. The city does not have a formal policy regarding public access to city records.

9. Municipal Division (page 28-29)

Monies collected by the court are not transmitted to the city on a timely basis, court costs were not assessed or collected in accordance with state law, some monthly reports could not be located and some were not added correctly, and the method of payment is not always indicated on the receipt slips and on court transmittal pages and is not reconciled to bank deposits.

CITY OF CROCKER, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Financial Operations</b>
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The city maintains several funds including a General Fund, Street Fund, Park Fund, and Water and Sewer Fund. Monies are set aside from the Water and Sewer Fund into a Pull-a-Pump Fund, Water Tower Maintenance Fund, and Depreciation and Replacement Fund. The city also sets aside monies from the General Fund into an Emergency Fund. All monies, except for the Depreciation and Replacement Fund and the city's meter service deposits, are deposited into one bank account. Our review of the financial operations and condition of the various city funds noted the following:

- A. As discussed further in MAR No. 2, the city has budgeted and operated the General Fund with a negative cash balance for several years, yet has not developed a plan to eliminate the deficit. Independent audit reports of the city have shown a negative fund balance and cash balance for several years. This deficit has grown significantly over the past four years, yet the city has continued to incur expenditures from the General Fund when monies are not available to pay for them. It appears the Board of Aldermen has made decisions based on inadequate financial information. As noted elsewhere in this report, budgets adopted by the city did not include complete information about beginning available resources and lacked any comparative actual data about the previous two years. In addition, the Board does not receive or review any periodic data throughout the year comparing budgeted amounts with actual amounts to date. The ending cash balances in the General Fund for the years ended June 30, 1998, 1997, 1996, 1995, and 1994 are as follows:

		Year Ended June 30				
		1998	1997	1996	1995	1994
Cash balance, June 30	\$	(48,783)	(39,853)	(32,519)	(20,827)	(10,327)

As of October 31, 1998 the General Fund still had a deficit cash balance of approximately (\$48,010).

While the city maintains several separate funds to account for the various activities of the city, most city receipts and disbursements are processed through one bank account. Because of this process, cash of other city funds has, in effect, been used to pay checks written from the General Fund. However, the city has not maintained adequate records to track how much cash has been used from each of these funds.

In addition, some expenditures paid directly from other city funds appear to in fact be General Fund costs. Examples include the following:

- \* The city receives a monthly contract fee of \$1,150 for collecting and depositing utility payments for the local rural electric company. This fee is deposited into the General Fund, but the applicable clerk's monthly salary of \$1,188 is paid entirely from the Water and Sewer Fund. Another deputy clerk's monthly salary of \$1,578 is also paid entirely from the Water and Sewer Fund, although part of her time is also devoted to general city operations.
- \* As noted in MAR No. 3, the city purchased land from the local school district for general city use, but the monthly payments for the land are made from the Water and Sewer Fund instead of the General Fund. The purchase price was \$35,000 and as of September 1998, \$5,765 had been paid.

Had these costs been appropriately charged to the General Fund, the negative cash balance would have been even larger. Operating at a deficit is a serious condition and inappropriate. The city needs to live within its means and should take immediate steps to eliminate the negative cash balance by decreasing expenditures or increasing revenues.

- B. The city maintains several funds to account for the operations of the city's water and sewer system. These include the Water and Sewer Operation and Maintenance Fund, Meter Service Deposit Fund, Pull-A-Pump Fund, Water Tower Maintenance Fund, Depreciation and Replacement Fund, Principal and Interest Fund, and Lease Purchase Construction Fund. The city has incurred several large expenditures during the last two years which have had a significant impact on the financial condition of the various water and sewer funds. These have included major repairs to the city water wells and well tower totaling \$67,000; construction of a new sludge clarifier and upgrades to the wastewater system totaling \$699,000 (of which \$455,600 was paid for by a Community Development Block Grant); purchase of a used pickup totaling \$14,500; payment of \$24,500 for half the cost of a new backhoe loader; and the purchase of land on which to spread city sewer sludge totaling \$71,600.

Some of these purchases required ongoing payments for several years and thus will continue to impact the water and sewer funds. For example, the city entered into a contract for approximately \$49,000 to repair the well tower which requires annual payments in excess of \$16,000 for the next three years. The Water and Sewer Fund's share of lease purchase payments for the backhoe loader is approximately \$586 per month through June, 2001. Also, to pay for its share of the costs of the sewer clarifier project and the purchase of a new sludge truck, the city issued \$435,000 in lease certificates of participation. This lease contract obligates the city to make over \$682,000 in principal and interest payments over a 15 year period, ending in 2012. The city must set aside approximately \$3,700 monthly from water and sewer fees to meet the principal and interest payments, plus \$660 per month for a required contribution to the Depreciation and Replacement Fund.

As of October 31, 1998, the city had approximately \$180,243 in the various water and sewer system funds noted above. However, of this total, only \$29,027 represents unrestricted monies available to pay normal operating costs of the system. Approximately \$37,216 represented restricted monies in the Meter Service Deposit Fund, Depreciation and Replacement Fund, and Principal and Interest Fund; and \$114,000 is unused proceeds of the lease certificates of participation, \$53,269 of which was earmarked to pay for the new sludge truck and outstanding project bills and \$60,731 which is restricted by the lease contract to be used to make principal and interest payments on the lease certificates of participation.

Our review noted that average monthly water and sewer revenues total approximately \$19,200 while average monthly expenditures charged to water and sewer operations total approximately \$21,500. This includes normal operating expenses, required contributions to the Depreciation and Replacement Fund and the Principal and Interest Fund, monthly payments for the backhoe lease, payments on the water tower contract, and voluntary contributions made to the Water Tower Maintenance Fund and Pull-A-Pump Fund. As noted in part A. above, these expenses also include payments for land purchased for general city use and the total salaries for two clerks who actually spend part of their time on general city operations. However, it does not include the monthly salaries, totaling approximately \$2,000 of two Water and Sewer Operations and Maintenance employees who work on the water and sewer system, city streets, and in the park, but whose salaries are paid entirely from the Street Fund. To ensure restricted revenues are not spent for other than their intended purpose, expenses associated with specific activities should be reflected in the funds established to account for those activities. This is also necessary to accurately determine the results of operations of those funds, thus enabling the city to properly establish the level of taxation and/or user charges necessary to meet all operating requirements.

The Board of Aldermen needs to closely monitor the ongoing financial condition of the various water and sewer funds to ensure monthly revenues are sufficient to pay required operating costs, as well as the other required monthly payments and contributions, and any amounts needed for future repairs. The Board needs to review financial information and ensure the rates are set to cover the total costs.

As noted in parts A. and B. above, the city has incurred many expenditures over the last two years for major construction and repairs, purchases of vehicles and equipment, and purchases of land. In addition, the city hired an additional police officer, whose salary is partially reimbursed by a federal grant, and approved a 10 percent salary increase for all employees for fiscal year 1998 and an additional 9 percent increase for fiscal year 1999. The Board needs to review adequate financial data as a basis for making such expenditure decisions, to ensure it can meet its obligations currently and in the future.

**WE RECOMMEND** the Board require adequate financial information be prepared to allow it to review and monitor the financial condition of each city fund. The Board of Aldermen should take immediate steps to eliminate the deficit in the General Fund and

ensure rates are set in the Water and Sewer Fund to cover the total costs of operation. The Board should also ensure all expenditures are charged to the appropriate fund.

### **AUDITEE'S RESPONSE**

*The board concurs and will attempt to implement the recommendations.*

<b>2. Budgetary Practices and Financial Reporting</b>
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A. Our review of the city's budgets noted the following concerns:

- 1) The city budgets do not include a budget message, the beginning cash balance for the General Fund ( although beginning balances were presented for other city funds) or the projected ending cash balances for any city funds.
- 2) The budgets do not include a comparative statement of actual or estimated receipts and disbursements for the two previous years. Amounts for the two previous years provide comparative information to help evaluate the reasonableness of the budget estimates for the upcoming year.
- 3) The budgets do not include the Water Tower Maintenance Fund, the Pull-a-Pump Fund, and Depreciation and Replacement Fund.
- 4) The Board of Aldermen does not periodically compare actual revenues and expenditures to the budgeted amounts. While such a comparative report is prepared each month by the City Clerk, it is not reviewed by the board nor do the board minutes document any discussions of the financial activities or financial condition of the funds.

Budgets are a planning tool and should serve as a guide throughout the year to monitor revenues and expenditures. A periodic comparison of budgeted versus actual revenues and expenditures is necessary to properly monitor the financial condition of each city fund.

Sections 67.010 to 67.080, RSMo 1994, provide the city's budget shall present a complete financial plan for the ensuing budget year and include specific requirements regarding the preparation and approval of the annual operating budget. A budget should be prepared for all funds of the city and the budget should include a budget message, the beginning and projected ending fund balances of all city funds, and actual or estimated revenues and expenditures for the two previous fiscal years. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area and providing a means to effectively monitor costs.

- B. While, as noted in part A.1. above, the city's budget documents did not present the beginning and estimated ending balance for the General Fund, the city has budgeted a negative balance each year in the General Fund. The city's General Fund has had a negative cash balance for the past several years but the city has continued to budget expenditures in excess of revenues or revenues and the beginning cash balance.

Section 67.010.2, RSMo 1994, and Article VI, Section 26(a) of the Missouri Constitution, state that in no event shall the total proposed expenditures from any fund exceed the estimated revenues to be received plus any unencumbered balance or less any deficit estimated for the beginning of the budget year. By continuing to budget a deficit in the General Fund each year, the board has essentially operated this fund illegally.

The board should take immediate steps to eliminate the General Fund budgeted deficit. The board should consider revising the current fiscal year 1999 budget to be in compliance with state law by identifying additional revenue sources or reducing expenditures where appropriate.

- C. During the years ended June 30, 1998, 1997, and 1996, the city approved expenditures in excess of the budgeted amounts for various funds as follows:

Fund	Year Ended June 30,		
	1998	1997	1996
General Fund	\$ 29,656	17,493	11,251
Water/Sewer Fund	89,838	104,087	624
Park Fund	8,394	3,735	4,654

The expenditures of the General Fund have exceeded the budgeted amounts due largely to expenditures for the police department. In fiscal year 1998, police department expenditures exceeded the budgeted amount by over \$39,000, although approximately \$15,000 of the expenditures were due to the hiring of a police officer whose salary is reimbursed under the COPS Grant program which was not originally budgeted. In fiscal years 1997 and 1996, the fire department expenditures also exceeded the amount budgeted by approximately \$11,000 and \$4,500, respectively, while in fiscal year 1996 administration expenditures exceeded the budgeted amount by approximately \$6,000.

The expenditures in excess of the budgeted amounts in the Water and Sewer Fund for the years ended June 30, 1998 and 1997, are due mainly to extensive repairs to city wells, engineering and grant administration payments related to the community development block grant obtained to upgrade the sewer system, and for the purchase of land to spread the sludge generated from the sewer plant. The total project costs, and related reimbursements, to be paid under the block grant were not included in the original budget and no budget amendments were made for these additional revenues and expenditures. A payment of \$25,000 was made for the purchase of land during

the year ended June 30, 1997, that was not budgeted. Payments of \$31,600 were made for the purchase of land in fiscal year 1998, while only \$25,000 was budgeted.

The Park Fund expenditures continually exceed the amounts budgeted due to under budgeting the amounts spent for park maintenance. For instance, in fiscal year 1998 the city spent \$8,000 to pave a walking trail in the city park, but this expenditure was not budgeted.

The city did not prepare amended budgets for these funds during each fiscal year but adopted a resolution only after the end of each fiscal year to amend the budgeted amounts to agree with the actual amounts. This resolution was set forth in the board minutes but no facts or reasons were given for the overspending of each budget.

Section 67.040, RSMo 1994, requires political subdivisions to keep expenditures within amounts budgeted. If there are valid reasons which necessitate excess expenditures, a resolution should be adopted by the governing body setting forth the amount of the budget increase and the facts and reasons for such increases. In addition, the board should cease incurring expenditures when there are no funds available to finance those expenditures.

- D. The approved amounts in the budget document are not reconciled to the budget amounts recorded on the computerized general ledger. Some approved budget expenditure amounts were not properly recorded on the computerized accounting system. This condition weakens the reliability of the city's financial data presented on its monthly computer reports and hinders the ability of the board to make sound financial decisions.
- E. The city's semi-annual published financial statements do not report detailed information by fund, but rather present the total assets, liabilities, revenues, expenditures, and ending cash balance for all funds of the city combined. The semi-annual financial statement published for the six month period ended December 31, 1997, also did not report the total indebtedness of the city regarding the lease certificates of purchase for \$435,000. To better inform the citizens, the city should report financial information separately for each fund.

Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semi-annually a full and detailed account of the receipts, expenditures, and indebtedness of the city.

- F. A formal maintenance plan for city streets has not been prepared annually. A maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. A plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare budgets for all funds of the city in accordance with state law. In addition, the board should periodically compare actual revenues and expenditures with budgeted amounts to monitor city finances and to ensure actual expenditures do not exceed budgeted amounts.
- B. Cease budgeting a deficit balance in the General Fund.
- C. Keep expenditures within budgeted amounts. If it is necessary to incur additional expenditures, a resolution setting forth the increase and reasons for such should be adopted before the additional expenditures are incurred.
- D. Ensure the approved budget amounts agree with the amounts recorded for each fund on the computerized accounting system.
- E. Ensure the published financial statements provide the citizens an adequately detailed account of the financial activity and indebtedness of the city.
- F. Prepare and document a maintenance plan at the beginning of the year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

**AUDITEE'S RESPONSE**

*A.&*

*C-F. The board concurs with the recommendations.*

*B. The board concurs and will attempt to implement this recommendation.*



**3.****Expenditures and Contracts**

- A. The city has a formal bidding policy; however, the city has not followed its written policy on many purchases. While it appears the city has solicited bids for some purchases, bids were not solicited or not documented for other purchases. The city's bidding policy requires a minimum of three oral or written quotations for the purchase or contract for goods or services between \$100 and \$2,500, and written specifications and newspaper publication for the purchase or contract for goods or services exceeding \$2,500. Our review of the city's bidding procedures noted the following:

- 1) During the years ended June 30, 1998 and 1997, the following purchases were made in which bids were not solicited or not documented:

Used truck	\$ 14,500
Computer hardware, software, and training	10,587
Backhoe loader	48,980
Asphalt paving	39,945
Well drilling	18,828
Grinder pump	3,997
Well repair	37,755

City officials indicated various quotes were obtained on the backhoe loader but this documentation was not retained. The city indicated it obtained book values from the local bank upon deciding to purchase the truck, but did not solicit quotes from various dealers on similar trucks. The well drilling expense was considered to be an emergency to repair a city well; however, this emergency situation was not appropriately documented in the board minutes. The well repair related to payments to a contractor for repairing a second city well in which \$34,686 of the cost was reimbursed to the city by the rural water district. No bids were solicited by the city, even though the city controlled this project and considered this amount when setting future water rates for the rural water district. The city also obtained a contractor in January 1998 for the repair of a water tower without soliciting bids. This work was not started until July 1998 and the total contract price exceeds \$49,000 to be paid over three years.

- 2) Several items were purchased with values between \$100 and \$2,500 that did not have three oral or written quotations documented as required by the city's bid policy. These purchases included such items as radio equipment and warranties for \$2,079, a blower for \$1,365, and an electric motor for \$308. While city officials indicated comparable prices were obtained from various vendors on these items and the lowest price obtained, documentation of the quotes was not retained. The city also buys gravel, asphalt, culverts, and

pump grease from local suppliers without obtaining written quotes. City officials indicated that these items are purchased from sole sources within the area; however, this is not documented in the board minutes.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given equal opportunity to participate in the city's business. While the city has established such procedures, they need to ensure the procedures are followed.

Bids can be handled by telephone quotation, by written quotation, by sealed bids, or by advertised sealed bids. Various approaches are appropriate, based on the dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the winning bid was selected. In addition, the board minutes should document the reasons bids are not taken due to sole source or emergency situations.

- B. The city provides free water and sewer services to the Crocker Community Swimming Pool Committee, a local not-for-profit (NFP) entity that built and maintains the swimming pool in the city park. The pool was opened in 1993 and serves both city and rural residents. The city has provided over \$10,300 in water and sewer services at the pool to the NFP from June 1993 through mid-September 1998. City officials indicated that the service was provided free by the city to contribute something toward the operation of the swimming pool since it serves city residents. However, the board did not pass an ordinance authorizing this service and the city did not enter into a written cooperative agreement with the NFP for the services to be provided by both parties. In addition, the city has not entered into a lease contract with the NFP for the use of the land in the city park on which the pool is located.

To authorize the use of water and sewer resources for this purpose and to ensure both parties are aware of their duties and responsibilities, the board should prepare a written ordinance to this effect and a written cooperative agreement should be entered into between the city and the NFP. This ordinance and written agreement should also provide for the use of the land in the city park by the NFP.

- C. We noted the following concerns with purchases of some property.
  - 1) In May 1997 the city purchased approximately seven acres of land next to the city park from the local school district for \$35,000. The city pays the school district a monthly payment based on the amount of the school's monthly water and sewer utility charge until the full debt is paid off. The payback period of this arrangement, based upon the current monthly usage, is approximately 7 to 8 years. The school district is billed for and pays their monthly water and sewer charge. The city deposits the payment into the Water and Sewer Fund, and the city then writes a check for the same amount back to the school district from the Water and Sewer Fund. The land is not

used for Water and Sewer Fund purposes, and purchasing it from the Water and Sewer Fund does not appear to be appropriate. In addition, the city entered into this agreement and has made monthly payments to the school district since May 1997 without a formal written contract. A written contract was not formally consummated and signed by both parties until July 1998.

Revenues of restricted funds such as the Water and Sewer Fund should only be used for the operation of that fund and should not be used to subsidize the general operations of the city. The General Fund should reimburse the Water and Sewer Fund \$5,765 paid through September 1998 and any subsequent payments for the purchase of the land.

- 2) In March 1997, the city purchased 50 acres of land on which to spread sludge from the sewer plant. The purchase price was \$46,600 and the written contract specified a payment of \$25,000 in March 1997, with the balance of \$21,600 to be paid in January 1998. The city then purchased an additional 28 acres next to this parcel from the same person for \$25,000 with a \$500 down payment, \$10,000 to be paid in January 1998 and the balance of \$14,500 plus interest to be paid in August 1998. The city did not enter into a written contract specifying the details of this second purchase. In addition, our review of these payments noted the city overpaid approximately \$1,400 to this person due to a miscalculation of interest to be paid. The city should attempt to recover this overpayment.

Section 432.070, RSMo 1994, requires contracts of political subdivisions be in writing. A written contract, signed by the parties involved, should specify the land to be purchased and the manner and amount of payments to be made. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- D. In March 1997, the city entered into an installment loan with the local bank in the amount of \$18,000 for the purchase of a new police car. This contract obligates the city to a monthly payment of approximately \$450 over a period of four years without any option to renew the contract on a yearly basis. At the time of the purchase and also at June 30, 1998, the city's General Fund had a negative cash balance.

Article VI, Section 26a of the Missouri Constitution, states that no city shall become indebted in an amount exceeding in any year the income and revenue provided for such year plus any unencumbered balances from previous years, except as otherwise provided in the constitution.

- E. Our review of the expenditures for the city's wastewater system construction project and the related Community Development Block Grant noted that the city overpaid \$2,000 to the grant administrator. The city should seek reimbursement of this overpayment from the grant administrator.

**WE RECOMMEND** the Board of Aldermen:

- A. Follow the city's bidding policy on all purchases and retain the necessary bid documentation or written quotes obtained from the various vendors. If a sole source item is purchased or an emergency expenditure is required, these reasons should also be noted in the board minutes.
- B. Prepare an ordinance authorizing the provision of water and sewer service to the NFP, and enter into a formal written agreement with the NFP indicating the duties and responsibilities of both parties. This agreement should also provide for the use of the city-owned land in the city park.
- C. Ensure there is a formal written contract for the purchase of land. In addition, require the General Fund to reimburse the Water and Sewer Fund the amount of monies spent for the purchase of land from the school district. Also, the Board should attempt to recover the amount overpaid for the land.
- D. Not enter into contracts which violate the state law regarding debt.
- E. Attempt to recover the amount overpaid to the grant administrator.

#### **AUDITEE'S RESPONSE**

- A. *The board concurs and has started implementing this recommendation by retaining appropriate bid documentation.*
- B. *The board concurs with the recommendation.*
- C. *The board concurs and will attempt to implement the recommendations. The city has attempted to contact the person regarding the amount overpaid and will continue to pursue this matter.*
- D. *The board agrees with the recommendation and will ensure this does not happen in the future.*
- E. *This has now been implemented. The city has now received reimbursement from the grant administrator.*

<b>4. Accounting Controls and Procedures</b>
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- A. The City Clerk and two deputies collect monies, issue receipt slips, record receipt information in the manual cash receipts ledger, and prepare bank deposits. The City Clerk records all receipt information from the cash receipts ledger to the computerized accounting system, and the City Treasurer records the information on her accounting records. During our review, we noted the following problems with controls over receipts:

- 1) The city accepts cash, checks, and money orders for various types of payments. Receipt slips, while prenumbered, are issued only upon request. In addition, while utility stubs serve as a receipt and are batched together by deposit, paid property tax statements are not batched together by deposit but are filed in alphabetical order.

The use of prenumbered receipt slips issued in numerical sequence for all miscellaneous monies received would provide better accountability. To help ensure collections are properly recorded and deposited, prenumbered receipt slips should be issued for all miscellaneous monies received and the numerical sequence should be accounted for properly. In addition, paid property tax statements should be filed with the deposit batch information.

- 2) The method of payment is generally noted on any city receipt slips issued; however, receipt slips are not issued for many receipts, and the method of payment is not recorded in the cash receipts ledger. Therefore, the method of payment cannot be reconciled from the receipt records to the amounts deposited in the city's bank accounts. To ensure all payments received are deposited, the method of payment indicated on city receipt slips should be recorded in the cash receipts ledger and someone independent should reconcile the composition to the composition of bank deposits.
- 3) Checks and money orders are not restrictively endorsed immediately upon receipt, but upon preparation of the deposit. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- 4) Monies received are not deposited intact or on a timely basis. While the cash drawers are balanced out each business day, the monies are not segregated and deposited the next day. City receipts, other than water, sewer, and trash receipts, were deposited approximately three times a week during the year ended June 30, 1998, while water, sewer, and trash receipts were deposited only about twice a week. Monies transmitted from the municipal court for fines and costs were held in a separate cash drawer and deposited by the City Clerk from one week to a month later. Our review also noted that personal checks from city employees and relatives are cashed from city monies.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all receipts should be deposited intact daily or when accumulated receipts exceed \$100. Personal checks should not be cashed from city funds.

- B. Checks are completed and signed by the Treasurer and held for a day or two in the city's vault until the next board meeting, when the invoices are reviewed and amounts to be paid are approved by the Board. To reduce the risk of loss or misuse of city funds, checks should not be signed before the payment has been properly

authorized or someone independent of the disbursement process should cosign the checks after comparing the checks with the approved listing of bills to be paid.

- C. The City Treasurer, who signs all the city checks as the sole signatory, is not bonded. In addition, the Deputy City Clerk is bonded only in the amount of \$4,000. This amount may not be adequate based upon the amount of city receipts collected. Failure to adequately bond city employees that handle monies exposes the city to the risk of loss.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Require prenumbered receipt slips be issued for all miscellaneous monies received, and the numerical sequence accounted for properly. In addition, paid property tax statements should be filed with the deposit batch information.
- 2. Ensure the method of payment is noted in the cash receipts ledger and require someone independent to periodically reconcile the composition per the receipt slips and cash receipts ledger to the bank deposits.
- 3. Require all checks and money orders be restrictively endorsed immediately upon receipt.
- 4. Ensure all city receipts are deposited intact daily or when accumulated receipts exceed \$100, and discontinue cashing personal checks from city monies.
- B. Require the City Treasurer to sign the checks only after all invoices have been approved for payment, or require someone independent to cosign the checks after comparing the checks written to the approved listing of bills to be paid.
- C. Ensure all employees with access to city assets are appropriately bonded.

**AUDITEE'S RESPONSE**

- A.1. *The board agrees with the recommendation and indicated the city has now started writing receipt slips for all miscellaneous receipts.*
- 2. *The board concurs.*
- 3. *This has now been implemented.*
- 4. *This has now been implemented.*
- B. *The board concurs.*
- C. *This has now been implemented. The City Treasurer is now bonded and the Deputy City Clerk's bond has been raised.*

The city operates a combined waterworks and sewer system that provides service to approximately 600 customers. A review of the city's Water and Sewer Fund records and procedures disclosed the following concerns:

- A. There is no independent oversight or adequate segregation of duties related to the city's utility system. Presently, the Deputy City Clerk performs all functions related to generating monthly utility bills, receipting and recording utility payments, making credit adjustments, depositing monies received, and monitoring accounts for delinquencies.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If a proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the utility system records and the reconciliations between recorded utility payments and deposits, and an independent review and approval of credit adjustments and delinquent account follow-up.

- B. The city has not established formal procedures for making adjustments to individual utility bills and there is no independent review or approval of the credit adjustments recorded on the computerized utility system. While the City Clerk or Mayor verbally authorize adjustments to the water bills upon discussion with the Deputy City Clerk, these adjustments are not formally approved or documented to ensure that all adjustments made were appropriate.

To ensure that all credit adjustments are valid and properly approved, someone independent of receipting and recording functions should review all credit adjustments and proper supporting documentation should be maintained of such adjustments.

- C. The city does not have a written policy or ordinance requiring each water and sewer customer to have their own separate meter for each service or establishing the procedures for alternative situations. While the informal policy is that each service should have its own meter, the city has allowed more than one service on the same water meter with each service paying the standard minimum billings plus amounts for additional usage. The city indicated there were several customers where two residences were hooked to the same water meter, and one customer where three buildings were serviced with the same water meter. A review of utility billings noted the city was properly billing the appropriate water and sewer rates based on the customers' monthly usage in accordance with the informal policy.

To adequately inform city residents and to prevent misunderstandings, the city should adopt a written policy on the number of water and sewer hook-ups allowed to each business and residence and the reasons for allowing more than one service to a meter. In addition, the policy should address how these multiple services will be billed.

- D. In the past, the city has performed an annual operation and maintenance review of the water system, including comparing total gallons pumped and metered to gallons billed for the year. The city's last review was dated May 1996 and covered the period from November 20, 1994 through November 20, 1995. The city has not performed this review since that time. For the three years of 1993 through 1995 the city's reviews showed gallons of water billed totaling 18 to 22 percent less than gallons of water pumped per the city wells. These differences are due to broken meters, leaks, flushing of lines and hydrants, and city swimming pool and fire department usage.

To help ensure the system is functioning properly without significant unexplained losses, this operation and maintenance review should be performed on a monthly basis.

- E. The city sells water to the Public Water Supply District #3 of Pulaski County (PWSD). In August 1996, a new contract was entered into between the city and the PWSD establishing the water rate to be paid to the city. The terms of the contract were negotiated through discussions between the PWSD board and city officials. The city did not maintain documentation supporting how the water rate was determined.

To ensure water rates charged to the PWSD are set at a level sufficient to allow the city to at least recover its costs, the city should document the estimated costs of providing water to the PWSD.

**WE RECOMMEND** the Board of Aldermen:

- A. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between utility payments deposited and recorded and delinquent account follow-up.
- B. Establish formal procedures to require someone independent of the utility system to review and approve all credit adjustments and ensure adequate documentation is retained of such adjustments.
- C. Adopt a written policy on the allowable number of water and sewer hook-ups per meter and the method of billing when there is more than one service per meter.



- D. Require an operation and maintenance review of the water system be performed monthly, including the reconciliation of gallons pumped and metered to gallons billed.
- E. Ensure adequate documentation is retained of the costs considered when establishing the water rate to be charged to the PWSD.

**AUDITEE'S RESPONSE**

- A. *The board agrees and has attempted to segregate some duties and will consider ways to establish independent reviews.*
- B. *This has now been implemented.*
- C-E. *The board concurs.*

<b>6. Community Oriented Policing Services (COPS) Grant</b>
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In April 1995, the city was awarded a Community Oriented Policing Services (COPS) grant through the U.S. Department of Justice for one additional full-time certified police officer. The grant award was for a three year period ending February 29, 1998, and totaled \$35,406 with 75 percent being the federal share and 25 percent being the city's matching requirement. The city did not hire an additional officer until July 1997, but has received an extension of the grant until August 31, 1999.

The grant allows the city to periodically request reimbursement of the federal share of allowable costs incurred. As of June 30, 1998, the city had not submitted any reimbursement requests even though the city had paid over \$15,000 in salary and fringe benefits through that date. After we brought this to her attention, the City Clerk did submit the first reimbursement request in August 1998. The city subsequently received a reimbursement of approximately \$13,500 in October 1998.

The board should review this situation and ensure the appropriate federal funds are drawn down timely.

**WE RECOMMEND** the Board of Aldermen review this grant and take action to ensure the federal monies available for this grant are drawn down on a timely basis.

**AUDITEE'S RESPONSE**

*The board agrees and indicated that drawdowns are now being made on a quarterly basis.*

A. We noted the following concerns regarding the duties, compensation, and terms of office of appointed officials and employees:

- 1) The city has not adopted an annual ordinance to establish the compensation of appointed officials and employees. Every May in closed session, the board reappoints the officials and employees and sets the compensation for the next fiscal year beginning in July. Neither the board minutes nor the budgets provide a detail of salaries paid to each appointed official and employee.
- 2) While a city ordinance provides that the City Clerk shall be appointed in May of every year and the annual compensation to be paid takes effect in July, at the start of the next fiscal year, the board approved an increase in compensation to the City Clerk effective January 1, 1998. The Mayor indicated that the City Clerk was awarded a new position titled Administrative City Clerk because of additional duties imposed upon her by the city. According to the Mayor, the additional duties require the City Clerk to become a manager between all city departments and to attend conferences or seminars with or on behalf of the Mayor. The Mayor indicated this was discussed by the board in a closed session and then noted in the regular board meeting; however, this activity was not recorded in the board minutes and no ordinance was passed establishing this new position or the new duties.

Sections 79.270 through 79.320, RSMo 1994, require that the duties, powers, compensation, and term of office of city officials and employees be established by ordinance. Also, compensation rates set by ordinance, in addition to meeting statutory requirements, document the approved amounts to be paid and reduce potential misunderstandings regarding the amount of pay each city official and employee is to receive. In addition, ordinance hearings provide for public input and information concerning the salaries paid.

B. The city does not have a written policy on use of city vehicles for commuting purposes. The Public Works Superintendent is provided a city-owned truck for commuting to and from home each day. City officials indicated this employee is on call 24 hours a day due to emergency situations. As a result, the city considers it necessary that he take the vehicle home and excludes the commuting usage from his compensation for tax purposes. The employee did not maintain a log indicating the amount of business and personal use incurred for this vehicle, nor did the city document the emergency situations responded to by the employee.

IRS guidelines indicate personal commuting mileage is a reportable fringe benefit. Furthermore, IRS guidelines require the full value of the provided vehicle is to be

reported if the employer does not require the submission of detailed logs which distinguish between business and personal usage.

C. We noted the following concerns related to timesheets:

- 1) While all city employees maintain time sheets, the time sheets maintained for employees other than police officers are completed by the City Clerk rather than the employees. These time sheets do not indicate the hours worked each day, but only the hours taken off by the employee for sick leave, annual leave, and compensatory time. In addition, these time sheets are not signed by the employee or the supervisor.
- 2) The time sheets do not indicate the hours worked by activity for each employee nor has the city performed any other time study to serve as a basis for allocating salary and fringe benefits to the appropriate funds. Currently the city pays two deputy city clerks entirely from the Water and Sewer Operation and Maintenance Fund even though part of their duties are not water and sewer system related. In addition, two employees who work on the city's water and sewer system, city streets, and in the city park are paid entirely from the Street Fund.

Time sheets should be adequately detailed, or some other time study should be performed, to ensure that payroll costs are charged to the appropriate funds.

Properly completed time sheets showing actual hours worked each day by function or activity and time taken off, along with the employee's and supervisor's signatures, are necessary to ensure that payroll expenditures are proper.

D. The city is not consistently following some of its written personnel policies. The city's personnel policy states that overtime pay is not to be paid to department heads. However, department heads such as the City Clerk, Chief of Police, and Public Works Superintendent have received overtime payments for additional hours worked. According to city officials, during the years ended June 30, 1998 and 1997, the city paid approximately \$1,300 and \$1,900, respectively, in overtime to the department heads. The policy does not describe under what circumstances overtime will be paid, at what amount, and the number of hours that can be accumulated.

In addition, the city personnel policy does not indicate whether total vacation hours earned can be carried forward into the next fiscal year although the usual practice is to not allow such a carryover. City employees were allowed by the Mayor to carry unearned vacation leave from 1997 into 1998. This was due to unusual circumstances that occurred in 1997 primarily related to time spent to implement and train on a new computerized accounting system. The board minutes did not reflect the circumstances necessitating the carryover.

The city should consistently follow its personnel policies or amend the policies as necessary.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish by ordinance the position, duties, and term of office of Administrative City Clerk, as well as the compensation of all appointed officials and employees.
- B. Include the value of personal usage of the city vehicle as compensation on the employee's W-2 forms. The board should adopt a written policy on the usage of city-owned vehicles, and related record keeping requirements.
- C.1. Require time sheets be completed for each employee showing the actual hours worked each day along with hours taken off, and ensure all time sheets are signed by the employee and approved by the supervisor.
- 2. Require time sheets to show the actual hours worked by function or activity to properly allocate employee salary costs and fringe benefits to the appropriate funds.
- D. Ensure the written personnel policies are followed or amend the policies as necessary. In addition, a written policy regarding the carryover of unused leave should be developed.

**AUDITEE'S RESPONSE**

A. *The board concurs and is in the process of adopting an ordinance regarding the position of Administrative City Clerk.*

B&D. *The board concurs.*

C. *The board concurs and will attempt to implement this recommendation.*

<b>8. Board Policies and Procedures</b>
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- A. The city maintains minutes of the closed sessions of the board meetings. However, one set of closed session minutes could not be located and some closed session minutes did not specifically document what was discussed but just made a general statement that a certain topic was discussed.

Section 610.021, RSMo Cum. Supp. 1997, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues. Adequate closed session minutes are necessary to document and record official board decisions and actions affecting city government and the public, and to ensure compliance with the Sunshine Law.

- B. A tentative agenda is prepared and posted for each board meeting; however, the agenda is usually in a standard form and does not disclose specific information to be discussed for the upcoming meeting. Also, the standard agenda notes that a closed session meeting may be held, but sometimes a closed session meeting is not actually held. In addition, when a closed session is held the agenda does not indicate the specific topic to be discussed.

To adequately inform the residents of the business to be discussed during the board meeting and to ensure compliance with the Sunshine Law, the tentative agenda should summarize the topics to be discussed during the meeting and, when applicable, clearly indicate the reason for holding a closed meeting.

- C. While the city discussed at various times in the board minutes the purchase of approximately 78 acres of land for \$71,600, the board minutes did not disclose the details surrounding this purchase. The city had in the past been using this land close to the sewer plant for hauling sludge from the sewer plant and had also hauled sludge to some landowners outside the city. The board minutes did not document the reasons for buying the land, the amount of acreage required to spread the sludge, or other alternatives the city may have had at the time such as locating other land for sale or contracting out to spread the sludge. To fully document the reasons for such a large transaction, to ensure the city has considered all possible alternatives that would be beneficial to the city, and for the taxpayers to be properly informed, the board minutes should contain all necessary information surrounding the transaction.
- D. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact and an address to mail requests for access to records and should establish a cost for providing copies of public records.

Section 610.023, RSMo 1994, lists requirements for making city records available to the public, and Section 610.026, RSMo 1994, allows the city to charge fees for copying public records, but the fees shall not exceed the city's actual cost of document search and duplication.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure adequate minutes, including the major topics and points of discussion, are maintained for all closed meetings.
- B. Require the tentative agenda to summarize the topics to be discussed during the board meeting and include on the agenda the purpose of any closed sessions.
- C. In the future, include all pertinent information and possible alternatives concerning a large transaction in the board minutes.

- D. Establish a formal written policy and procedures regarding public access to city records.

**AUDITEE'S RESPONSE**

A-C. *The board concurs.*

D. *This has now been implemented.*

<b>9. Municipal Division</b>
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- A. Monies collected by the court are not transmitted to the city on a timely basis. Transmittals were made approximately once every two to three weeks, and averaged over \$580 during the year ended June 30, 1998. To adequately safeguard receipts and reduce risk of loss, theft, or misuse of funds, transmittals should be made daily or when accumulated receipts exceed \$100.
- B. Court costs were not assessed or collected in accordance with state law. Court costs were reduced from \$20 to \$14 for violations occurring on city streets as opposed to the state highway. A \$5 Crime Victims' Compensation (CVC) fee and a \$1 Peace Officer Standards and Training Commission (POSTC) fee were not charged on municipal ordinance violations on city streets. Sections 595.045.1 and 590.140.1, RSMo Cum. Supp. 1997, require fees for CVC, Law Enforcement Training (LET), and POSTC be charged on all court cases for violations of municipal ordinances, except for cases dismissed by the court.
- C. The municipal division files with the city a monthly report of all cases heard in court; however, during the year ended June 30, 1998, four months of monthly reports could not be located and two additional monthly reports were not added correctly. All monthly reports should be retained and mathematically correct to properly reflect the monthly activity of the court.
- D. The municipal division accepts cash, checks, and money orders for fines, court costs, and bonds. Some receipt slips issued by the municipal division and some court transmittal pages did not indicate the method of payments received. Therefore, no reconciliation can be performed between the composition of receipt slips issued by the court and monies transmitted to the city treasury for deposit. To ensure all receipts are transmitted intact, the method of payment received should be indicated on the receipt slips and the court transmittal pages. In addition, the composition of receipt slips issued should be reconciled to the composition of transmittals and bank deposits.

A condition similar to D was also noted in our prior report of the municipal division.

**WE RECOMMEND** the Municipal Division:

- A. Transmit receipts to the city intact daily or when accumulated receipts exceed \$100.
- B. Assess court costs in accordance with state law.
- C. Ensure that all monthly reports are retained and are mathematically correct.
- D. Indicate the method of payment on all receipt slips issued and the court transmittal pages, and reconcile the composition of receipt slips issued to the composition of monies transmitted and monies deposited.

**AUDITEE'S RESPONSE**

*The Municipal Division Judge provided the following responses:*

- A. We will attempt to implement this recommendation.*
- B. We will take this recommendation under advisement.*
- C&D. I concur with the recommendations.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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